



Gregory J. Nickels  
Mayor of Seattle

March 16, 2004

Don Wise, Chair  
City Light Advisory Board  
700 Fifth Ave, Suite 6175  
Seattle, WA 98104

Dear Don

Thank you for your extraordinary work on behalf of the customers of City Light. The City Light Advisory Board's Annual Report proves the concept we had two years ago – that an independent group of experts can help the City provide effective oversight of the utility.

You have done exemplary work that will make a significant difference to City Light's ratepayers.

Your report includes five specific recommendations, and my responses to each are outlined below:

1. **Cash Reserves** - The Advisory Board has recommended increasing the cash reserves that City Light maintains to equal approximately 125 days of operating expenses (currently about \$100 million). The recommendation includes the suggestion that a Bond Reserve Fund could be replaced with a surety bond or letter of credit, allowing approximately \$80 million to be transferred to the operating reserve.

I support this change in the utility's reserve policies, subject to the creation of a legal lockbox, ensuring that the reserve funds can only be used for urgent needs and will be repaid promptly if they are needed. I will direct the new Superintendent of City Light to explore options for both bringing the operating reserve up to the recommended level, and protecting the balance so that it is available if needed.

2. **Debt Reduction** - The report notes that current City Light policies are expected to reduce the debt/capital ratio to 50 to 60% by 2011. But the Board recommends that the City strengthen that expectation by establishing it as a policy with a specific deadline.

I concur, and will work with the City Council to add a financial policy specifying that City Light will achieve a debt-to-capitalization ratio\* of 60% by 2011 and 50%

by 2016. This will require amending City Light's current financial policies, and I will ask the Council to work with me on passing that amendment.

(\*Debt to capitalization is defined by City Light as the total amount of debt outstanding divided by the sum of accumulated net earnings, accumulated contributions in aid of construction, and debt outstanding.)

3. **Risk Management** - The Board's report suggests that City Light should strengthen its risk management processes "to minimize the impact of an increasingly volatile operating environment."

No one who was here during the power crisis of 2001 will underestimate the need for careful risk management in the face of uncertain supply and costs. City Light has begun development of a comprehensive risk management process. I support that work, and look forward to working with the Board and City Light to ensure that we are implementing a cost-effective risk management strategy.

4. **Integrated Resources Planning** - The Advisory Board has called for City Light to develop a stronger "integrated resources planning" (IRP) capability, and to conduct a mini-IRP process in 2004 in connection with the evaluation of the Klamath Falls Project.

While City Light has an enviable base of power resources, it still faces real uncertainty as to the source and cost of the additional power that will be necessary to meet customer demand. I will be working with the Advisory Board and City Light on the review and analysis of the options available to the utility – both the immediate issues raised by the expiration of the Klamath Falls contract, and the need to identify future resources.

5. **High Performance Organization.** The Board recommends new management systems and practices to create a "high performance organization that is committed and able to deliver economic value to the citizens of Seattle through financial strength and lower rates – while maintaining its leadership on the environment. . ."

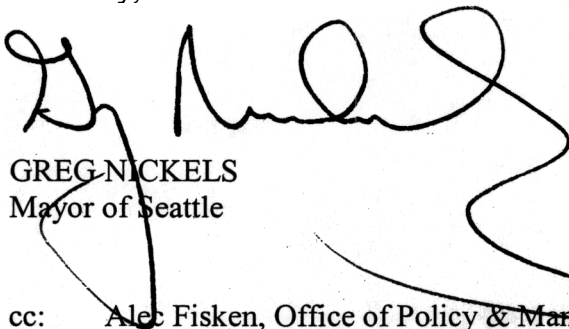
The report includes a good deal of detail on the specific goals that the Advisory Board has identified as prerequisites for achieving that broad organizational objective. Some require internal changes at City Light. Some require changes in the interaction between City Light, the executive and the City Council.

These are thoughtful recommendations, critical to the long-term future of an effective public power organization. As a first critical step I have named a new Superintendent who is committed to these goals, and who will create a more accountable, more effective organization.

At the same time, I will work with the new Superintendent, the Council and the Department of Finance to review the City Light budget process and oversight. I will work with the Council and Superintendent to develop a stronger role for the City in regional power supply issues. In addition, we will continue to look to the Advisory Board for its advice on risk management and performance metrics, among other areas.

This year will be a critical one in moving toward the "security and stability" that you describe in your report. City Light staff has made very significant progress in recovering from the energy crisis of 2001. You have described the next steps on the road to low-cost, reliable service for all City Light customers. I look forward to working with you, our new Superintendent, and the City Council to implement those recommendations in the year ahead.

Sincerely,



GREG NICKELS  
Mayor of Seattle

Thank you for  
all your effort  
on this!

cc: Alec Fiskien, Office of Policy & Management  
Jorge Carrasco, SCL Superintendent